Not To Be Published:

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF IOWA
WESTERN DIVISION

SILENT DRIVE, INC., Plaintiff, vs. STRONG INDUSTRIES, INC., BROOKS STRONG, FRED SMITH, F.S. NEW PRODUCTS, INC., Defendants.	No. C01-4015-MWB **MEMORANDUM OPINION AND ORDER REGARDING DEFENDANT STRONG INDUSTRIES AND BROOKS STRONG'S MOTION TO TRANSFER, STAY OR DISMISS**

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I. INTRODUCTION AND BACKGROUND

A. Procedural Background

On February 14, 2001, plaintiff Silent Drive, Inc. ("Silent Drive") filed its complaint in this lawsuit against defendants Strong Industries, Inc. ("Strong Industries"), Brooks Strong ("Strong"), Fred Smith, and F.S. New products (collectively "the Strong defendants" unless otherwise indicated).[1] In the complaint, Silent Drive seeks a declaratory judgment, pursuant to 28 U.S.C. § 2201, to determine the validity of a Texas state court injunction obtained by Strong Industries and Strong in which Silent Drive and its MAXLE product are named. Silent Drive also seeks to obtain a declaratory judgment of patent invalidity and non-infringement concerning certain patents owned by Strong. Silent Drive further asserts an Iowa state common law claim against Strong Industries and Strong for tortious interference with actual and prospective contractual relations. On March 4, 2002, the court granted the Strong defendants' motion to dismiss on the grounds of lack of personal jurisdiction. The United States Court of Appeals for the Federal Circuit reversed that decision on April 16, 2003, and remanded the case to this court.

The Strong defendants filed their Motion To Transfer, Stay or Dismiss on June 10, 2003. In their motion, the Strong defendants assert that for the convenience of the parties and the witnesses in this case it would be more appropriate to have the case tried in Texas. The Strong defendants further contend that this case may be rendered moot by pending litigation in Texas. Silent Drive filed a timely resistance to defendants' motion on June 23, 2003. The Strong defendants filed a reply brief in support of their Motion To Transfer,

[1] Silent Drive has settled its claims against defendants Fred Smith and F.S. New Products. Thus, because the only claims that remain in this lawsuit are Silent Drive's claims against Strong Industries and Brooks Strong, the court will refer only to Silent Drive's claims against those defendants.

Stay or Dismiss on July 1, 2003. The court turns first to the factual background of this case. The court then turns to the legal analysis of the Strong defendants' Motion To Transfer, Stay or Dismiss.

B. Factual Background

Both parties have supplied affidavits or other documents in support of their respective positions. The court has extracted the following facts from the record, viewing the facts in the light most favorable to Silent Drive and resolving all factual conflicts in favor of that party.

Silent Drive, Inc. is a corporation of the state of Iowa with its principal place of business in Orange City, Iowa. Silent Drive is in the business of manufacturing and selling suspensions for the trucking industry. Silent Drive has manufactured trailing axles for dump trucks under the trademark "MAXLE."[2]

Defendant Strong Industries is a Texas Corporation with its principal place of business in Houston, Texas. Defendant Brooks Strong is the President of Strong Industries and is a resident of Texas. Strong Industries manufactures and sells a trailing truck axle product called the "STRONG ARM."

The Strong defendants brought suit in Texas state court against Tesco American, Inc., d/b/a Tesco/Williamsen and F.S. New Products, Inc. The Strong defendants brought suit to protect its trade secrets in their trailing axles from misappropriation by Tesco and F.S. New Products. On October 27, 2000, an injunction was entered precluding Tesco, F.S. New Products, "and those acting in concert with them" from violating the Strong defendants' trade secrets. Although Silent Drive was not a party to that litigation, the state

[2]A trailing axle is a auxiliary suspension for trucks which extends the length of the truck, enabling it to carry a larger pay load.

court judgment and permanent injunction entered in the case enjoined Silent Drive from making and selling its MAXLE trailing axles. The Texas state court decision is currently on appeal to the Texas Court of Appeals.

On February 14, 2001, Silent Drive filed this lawsuit against the Strong defendants. On May 11, 2001, the Strong defendants filed an action in Texas state court against Silent Drive seeking enforcement of the previously issued Texas state court injunction. In their lawsuit of May 11, 2001, the Strong defendants seek to have Silent Drive held in contempt for violation of the Texas state court injunction, request an injunction compelling Silent Drive to turn over all materials used in the production of the MAXLE trailing axles, and to enjoin Silent Drive from initiating, pursuing, or appealing any action against the Strong defendants, including the maintaining of this lawsuit. Silent Drive removed the case to the United States District Court For the Southern District of Texas and filed a motion to dismiss for lack of personal jurisdiction or, in the alternative, for transfer of the case to the United States District Court for the Northern District of Iowa. On March 13, 2002, the Texas federal district court granted Silent Drive's motion to dismiss on the ground that the Strong defendants had not established a basis for personal jurisdiction over Silent Drive. However, on March 4, 2003, the Texas federal district court granted the Strong defendants' request that it reconsider its decision to dismiss the case. The Strong defendants' motion to reconsider is still pending before the United States District Court For the Southern District of Texas.

II. LEGAL ANALYSIS

The court will turn first to consideration of the Strong defendants' contention that

an exception to the "first-filed" rule warrants the dismissal of this action.[3]

A. Application Of The First-Filed Rule

This court has previously discussed the "first-filed rule" and the exceptions to it. *See Wells' Dairy, Inc. v. Estate of J.P. Richardson*, 89 F. Supp.2d 1042, 1057-58 (N.D. Iowa 2000) (declaring first-filed rule only applied to concurrent cases in federal court); *Med-Tec Iowa, Inc., v. Nomos Corp.*, 76 F. Supp.2d 962, 967 (N.D. Iowa 1999) (entertaining the first-filed action); *MidAmerican Energy Co. v. Coastal Gas Marketing Co.*, 33 F. Supp.2d 787, 790 (N.D. Iowa 1998) (entertaining the second-filed action); *Terra Int'l, Inc. v. Mississippi Chem. Corp.*, 922 F. Supp. 1334, 1345-54 (N.D. Iowa 1996) (entertaining the first-filed action), *aff'd*, 119 F.3d 688 (8th Cir. 1997), *cert. denied*, 522 U.S. 1029 (1997); *Brower v. Flint Ink Corp.*, 865 F. Supp. 564, 567-73 (N.D. Iowa 1994) (entertaining the second-filed action). In the present case, the parties do not disagree about what lawsuit was commenced first. Silent Drive and the Strong defendants agree that Silent Drive filed this lawsuit before the Strong defendants filed their lawsuit in Texas against Silent Drive. The disagreement here centers on whether one of the first-filed rule's exceptions is applicable to the circumstances of this case. Before turning to an analysis of the parties' disputes, the court will provide an overview of the first-filed rule.

1. The first-filed rule

The Eighth Circuit Court of Appeals has recognized the first-filed rule as follows:

> The well-established rule is that in cases of concurrent

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[3] Although the Strong defendants assert in their motion that the case should be dismissed pursuant to Federal Rule of Civil Procedure 12(b)(3) on the ground that venue in the Northern District of Iowa is improper, the Strong defendants do not address this contention in their brief. Because the Strong defendants have not identified the basis for their view that venue does not lie in the Northern District of Iowa, this portion of their motion is denied.

> jurisdiction, "the first court in which jurisdiction attaches has priority to consider the case." *Orthmann v. Apple River Campground Inc.*, 765 F.2d 119, 121 (8th Cir. 1985). This first-filed rule "is not intended to be rigid, mechanical, or inflexible," *Orthmann*, 765 F.2d at 121, but is to be applied in a manner best serving the interests of justice. The prevailing standard is that "in the absence of compelling circumstances," *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Haydu*, 675 F.2d 1169, 1174 (11th Cir. 1982), the first-filed rule should apply.

Northwest Airlines v. American Airlines, 989 F.2d 1002, 1005 (8th Cir. 1993) (quoting *United States Fire Ins. Co. v. Goodyear Tire & Rubber Co.*, 920 F.2d 487, 488-89 (8th Cir. 1990)); *accord Keymer v. Management Recruiters Int'l, Inc.*, 169 F.3d 501, 503 n.2 (8th Cir. 1999) (stating this rule and citing *Northwest Airlines* 989 F.2d at 1005); *Midwest Motor Express, Inc. v. Central States Southeast and Southwest Areas Pension Fund*, 70 F.3d 1014, 1017 (8th Cir. 1995) (first-filed rule " 'gives priority, for purposes of choosing among possible venues when parallel litigation has been instituted in separate courts, to the party who first establishes jurisdiction.'") (quoting *Northwest Airlines*, 989 F.2d at 1006); *Boatmen's First Nat'l Bank of Kansas City v. Kansas Pub. Employees Retirement Sys.*, 57 F.3d 638, 641 (8th Cir. 1995) (same); *see also Smart v. Sunshine Potato Flakes, L.L.C.*, 307 F.3d 684, 687 (8th Cir. 2002) (noting that "'first filed' is not a 'rule.' It is a factor that typically determines, 'in the absence of compelling circumstances,' which of two concurrent federal court actions should proceed to judgment.") (quoting *United States Fire Ins. Co.*, 920 F.2d at 488). Thus, the first-filed rule requires that the concurrent cases be brought by the same parties and embrace the same issues. *See Midwest Motor Express*, 70 F.3d at 1017; *accord Keymer*, 169 F.3d at 503 n.2 ("The first-filed rule gives priority, when parallel litigation has been instituted in separate courts, to the party who first establishes jurisdiction in order to conserve judicial resources and avoid conflicting rulings."); *Anheuser-Busch, Inc. v. Supreme Int'l Corp.*, 167 F.3d 417, 419 (8th Cir. 1999) ("The

well-established rule is that in cases of concurrent jurisdiction, 'the first court in which jurisdiction attaches has priority to consider the case.'") (quoting *United States Fire Ins. Co.*, 920 F.2d at 488) (internal quotations omitted).

2. Exceptions to the first-filed rule

a. "Balance of convenience" exception

As this court previously observed in *MidAmerican Energy*, *Terra* and *Brower*, courts have, in considering whether or not to allow a second-filed action to proceed, sometimes entertained an analogy to 28 U.S.C. § 1404(a) to identify factors in a "balance of convenience" to the parties, either before or in addition to considering other special or compelling circumstances in the "first-filed" analysis. *See Terra Int'l, Inc.*, 922 F. Supp. at 1348-50; *see also MidAmerican Energy*, 33 F. Supp.2d at 791-94; *Brower*, 865 F. Supp. at 567-68. In *Terra*, this court noted that consideration of such factors was consistent with the directive of the Eighth Circuit Court of Appeals that the first-filed rule "'yields to the interests of justice.'" *Terra Int'l, Inc.*, 922 F. Supp. at 1348. In *MidAmerican Energy*, this court also summarized some of the pertinent factors in a "balance of convenience" analysis as including the following:

> whether the forum to which transfer is sought is one in which the action 'might have been brought,' 28 U.S.C. § 1404(a); the balance of convenience of parties and witnesses, noting that a transfer that merely shifts the inconvenience from one party to the other need not be granted; location of documentary evidence; place in which the conduct complained of occurred; which forum's substantive law applies; the interests of justice; and other relevant factors.

MidAmerican Energy Co., 33 F. Supp.2d at 792 (citing *Terra Int'l, Inc.*, 922 F. Supp. at 1358-65).

The Strong defendants contend that a number of witnesses, including Greg Walker, William Farnell, Keith Atwell and Stephen Broussard, are from Texas and would be beyond

the subpoena power of this court.[4] The Strong defendants further note that: "the dispute primarily involves two other companies and all of the documents and sworn testimony has been gathered in Texas." The Strong defendants' Br. at 5. The flaw in this argument is that it is premised on the faulty notion that the issues in the case before this court will be indistinguishable from those issues addressed in the Texas state court action between the Strong defendants and Tesco American, Inc., d/b/a Tesco/Williamsen and F.S. New Products, Inc. That action was a trade secret case while the issues before this court concern whether the enforcement of the Texas state court injunction on Silent Drive constitutes a violation of due process, whether the Strong defendants improperly interfered with Silent Drive's business relationships, and whether the Strong defendants' patents are valid. Silent Drive points out that these issues will require testimony from Silent Drive employees who are all located in Iowa, as are Silent Drive's business records. Thus, the court is unpersuaded that the Strong defendants have established that the balance of convenience necessarily favors the Texas forum, nor is it apparent that the inconvenience of the Iowa forum to the Strong defendants is sufficient to overcome Silent Drive's filing first in Iowa. The Strong defendants and Silent Drive have filed their respective lawsuits in forums where their respective principal places of business are located. As a result, any transfer in this case would merely shift the inconvenience from one party to the other.

Therefore, because this court finds the balance of convenience to be in equipoise, the "balance of convenience" exception is inapplicable in this litigation. The court turns next to an analysis of whether the "compelling circumstance" exception to the first-filed rule is applicable here.

b. The "compelling circumstances" exception

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[4]The court notes that the Strong defendants do not indicate in their moving papers what these witnesses will testify about at trial. The court, therefore, cannot gauge their importance to this litigation with any precision.

In *MidAmerican Energy*, this court observed that:

> As the Eighth Circuit Court of Appeals has stated, the first-filed rule is not to be "mechanically" applied, *Boatmen's First Nat'l Bank*, 57 F.3d at 641; *Northwest Airlines*, 989 F.2d at 1005; *Orthmann*, 765 F.2d at 121, but should give way to "compelling circumstances" requiring a result different from that obtained by applying the rule. *See, e.g., Midwest Motor Express*, 70 F.3d at 1017; *Boatmen's First Nat'l Bank*, 57 F.3d at 641; *Northwest Airlines*, 989 F.2d at 1005 ("The rule . . . yields to the interests of justice, and will not be applied where a court finds 'compelling circumstances' supporting its abrogation."); *Goodyear*, 920 F.2d at 488-89; *accord Trippe Mfg. Co. v. American Power Conversion Corp.*, 46 F.3d 624, 629 (7th Cir. 1995) ("This circuit does not rigidly adhere to a 'first-to-file' rule," and finding the rule could be overcome by the district court's inherent power to control its docket and a decision to defer to the court of second filing was therefore proper).

MidAmerican Energy Co., 33 F. Supp.2d at 792. This court went on to revisit its previous discussion, in *Brower*, where it categorized and synthesized from prior decisions what constitutes "compelling circumstances" for disregarding the first-filed rule. This court concluded that:

> "[t]he Eighth Circuit Court of Appeals has . . . recognized two specific factual circumstances in which it will find an exception to the "first-filed rule" and allow the second suit to continue: (1) where the plaintiff in the first-filed action was able to file first only because it had misled the filer of the second-filed action as to its intentions regarding filing suit in order to gain the advantages of filing first; and (2) where the second-filed action is a continuation of a legal process already begun in that court even though another action concerning the same issues has been filed in between in another court and is therefore ostensibly the first-filed action."

MidAmerican Energy Co., 33 F. Supp.2d at 792 (quoting *Brower*, 865 F. Supp. at 569).

Here, although the Strong defendants rely upon the "compelling circumstances" exception to application of the first-filed rule, the Strong defendants make no specific allegations that they were "misled" by Silent Drive regarding its intentions to file this lawsuit. Therefore, the court finds that the Strong defendants cannot avail themselves of the first "compelling circumstance" exception to the first-filed rule identified in *Brower*, *see Brower*, 865 F. Supp. at 569; *accord MidAmerican Energy Co.*, 33 F. Supp.2d at 792, because Silent Drive did not actively mislead the Strong defendants about its intention to file suit in Iowa. Moreover, the court concludes that the Texas lawsuit between the Strong defendants and Silent Drive, while tangentially related to the Texas lawsuit between the Strong defendants and Tesco American, Inc., d/b/a Tesco/Williamsen and F.S. New Products, Inc., is not a continuation of that action so as to render this lawsuit only ostensibly the first one filed. *See Brower*, 865 F. Supp. at 569.

As this court noted in *MidAmerican Energy*, the Eighth Circuit Court of Appeals has also recognized two factors that "send up red flags that there may be compelling circumstances." *Northwest*, 989 F.2d at 1007. Those "red flags" are:

> first, that the "first" suit was filed after the other party gave notice of its intention to sue; and, second, that the action was for declaratory judgment rather than for damages or equitable relief.

Boatmen's First Nat'l Bank, 57 F.3d at 641 (citing *Northwest Airlines*, 989 F.2d at 1007); *accord Anheuser-Busch, Inc.*, 167 F.3d at 419 (citing *Northwest Airlines*, 989 F.2d at 1007). Here, however, neither of the "red flags" mentioned in *Northwest Airlines* are applicable. At the time Silent Drive filed its action here, the Strong defendants had not made known their intention to bring a subsequent action to enforce the injunction entered in the Texas lawsuit between the Strong defendants and Tesco American, Inc., d/b/a Tesco/Williamsen and F.S. New Products, Inc. Moreover, this lawsuit is not merely one for declaratory judgment but one in which Silent Drive is seeking to recover damages for, *inter alia*, lost

sales, lost profits, and unjust enrichment. Indictment at 10. Therefore, the court concludes that there are no compelling circumstances here on which to base an exception to the first-filed rule. This portion of the Strong defendants' Motion To Transfer, Stay or Dismiss is denied.

B. Application Of The Pullman Abstention Doctrine

In their motion to dismiss, the Strong defendants request the court to abstain, by exercising the authority set forth in the abstention principles articulated in *Railroad Commission of Texas v. Pullman Co.*, 312 U.S. 496 (1941). The Strong defendants assert that the Texas Court of Appeals may vacate the injunction against Silent Drive and therefore obviate the need for this court to determine whether the enforcement of the injunction against Silent Drive is violative of due process.

Pullman abstention applies "in cases presenting a federal constitutional issue which might be mooted or presented in a different posture by a state court determination of pertinent state law." *Colorado River Water Conservation Dist. v. United States*, 424 U.S. 800, 814 (1976)); *see Alliance of Am. Insurers v. Cuomo*, 854 F.2d 591, 599 (2d Cir. 1988). Abstention under *Pullman* is appropriate where an unconstrued state statute is susceptible of a construction by the state judiciary which might avoid in whole or in part the necessity for federal constitutional adjudication, or at least materially change the nature of the problem. *Bellotti v. Baird*, 428 U.S. 132, 147 (1976); *see Harris County Comm'rs Court v. Moore*, 420 U.S. 77, 84 (1975). *Pullman* abstention allows federal courts to retain jurisdiction over federal constitutional claims pending a state court decision. *See Hawaii Housing Authority v. Midkiff*, 467 U.S. 229, 236 (1984).

The Eighth Circuit Court of Appeals has instructed that:

> *Pullman* abstention requires consideration of (1) the effect abstention would have on the rights to be protected by considering the nature of both the right and necessary remedy;

> (2) available state remedies; (3) whether the challenged state law is unclear; (4) whether the challenged state law is fairly susceptible to an interpretation that will avoid any federal constitutional question; and (5) whether abstention will avoid unnecessary federal interference in state operations.

Beavers v. Arkansas State Bd. of Dental Examiners, 151 F.3d 838 (8th Cir. 1998) (citing *George v. Parratt*, 602 F.2d 818, 820-22 (8th Cir. 1979)). "In other words, if a reasonable interpretation would render unnecessary or substantially modify the federal constitutional question then abstention is appropriate." *Robinson v. City of Omaha*, 886 F.2d 1042, 1043 (8th Cir. 1989). Applying these considerations to the case at bar, the court concludes that abstention is inappropriate here.

Although the Texas Court of Appeals's decision in the appeal of the lawsuit between the Strong defendants and Tesco American, Inc. and F.S. New Products, Inc. might resolve the question of the validity of the injunction against Silent Drive, the result of that appeal will have no effect on Silent Drive's other two claims against the Strong defendants, Silent Drive's claim for a declaratory judgment of patent invalidity and non-infringement concerning certain patents and its Iowa state common law claim for tortious interference with actual and prospective contractual relations. Patent infringement and validity are matters of federal law, and there is no interpretation of Texas law which could make it unnecessary for this court to reach the questions of whether the Strong defendants' patents are valid or whether these patents have been infringed by Silent Drive. *See Household Bank v. JFS Group*, 320 F.3d 1249, 1258 (11th Cir. 2003) (noting that "disputes over the infringement or the validity of a patent can only be resolved in a federal district court because jurisdiction 'shall be exclusive of the courts of the states in patent . . . cases.'")(quoting 28 U.S.C. § 1338(a)); *Bio-technology Gen. Corp. v. Genentech, Inc.*, 80 F.3d 1553, 1564 (Fed. Cir.) (noting that United States District Courts "have original and exclusive jurisdiction over patent infringement cases."), *cert. denied*, 519 U.S. 911 (1996);

cf. PPG Indus., Inc. v. Guardian Indus. Corp., 597 F.2d 1090, 1093, (6th Cir. 1979) ("Questions with respect to the assignability of a patent license are controlled by federal law."), *cert. denied*, 444 U.S. 930 (1979). Accordingly, the court will not abstain from the exercise of jurisdiction over this lawsuit. Therefore, this portion of the Strong defendants' Motion To Transfer, Stay or Dismiss is also denied.

III. CONCLUSION

Initially, the court is unpersuaded that the Strong defendants have established that the balance of convenience necessarily favors the Texas forum, nor is it apparent that the inconvenience of the Iowa forum to the Strong defendants is sufficient to overcome Silent Drive's filing first in Iowa. Moreover, the court concludes that the Strong defendants have not established compelling circumstances upon which to base an exception to the first-filed rule. The court further concludes that it will not abstain from exercise of jurisdiction over this lawsuit because there is no interpretation of Texas law which could make it unnecessary for this court to reach the federal questions of whether the Strong defendants' patents are valid or whether these patents have been infringed by Silent Drive.

IT IS SO ORDERED.

DATED this 7th day of August, 2003.

Mark W. Bennett

MARK W. BENNETT
CHIEF JUDGE, U. S. DISTRICT COURT
NORTHERN DISTRICT OF IOWA